

ALASKA STATE LEGISLATURE
SENATE EDUCATION STANDING COMMITTEE

March 10, 2014

8:02 a.m.

MEMBERS PRESENT

Senator Gary Stevens, Chair
Senator Mike Dunleavy, Vice Chair
Senator Berta Gardner

MEMBERS ABSENT

Senator Bert Stedman
Senator Charlie Huggins

COMMITTEE CALENDAR

SENATE JOINT RESOLUTION NO. 23

Proposing an amendment to the Constitution of the State of Alaska relating to contracting state debt for postsecondary student loans.

- HEARD & HELD

SENATE BILL NO. 195

"An Act relating to the membership and authority of the Alaska Commission on Postsecondary Education; relating to the Alaska Student Loan Corporation; relating to teacher education loans; relating to interest on and consolidation of postsecondary education loans; relating to Alaska supplemental education loans; relating to AlaskAdvantage grants; relating to the Alaska family education loan program; relating to postsecondary educational institutions; and providing for an effective date."

- HEARD & HELD

SENATE BILL NO. 208

"An Act increasing the school construction debt reimbursement percentage for certain municipalities; and providing for an effective date."

- HEARD & HELD

SENATE BILL NO. 139

"An Act increasing the base student allocation used in the formula for state funding of public education; repealing the

secondary student competency examination and related requirements; relating to high school course credit earned through assessment; relating to a college and career readiness assessment for secondary students; relating to charter school application appeals and program budgets; relating to residential school applications; increasing the stipend for boarding school students; extending unemployment contributions for the Alaska technical and vocational education program; relating to earning high school credit for completion of vocational education courses offered by institutions receiving technical and vocational education program funding; relating to education tax credits; making conforming amendments; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SJR 23

SHORT TITLE: CONST. AM: STUDENT LOAN DEBT

SPONSOR(s): SENATOR(s) FAIRCLOUGH

| | | |
|----------|-----|-----------------------------------|
| 02/14/14 | (S) | READ THE FIRST TIME - REFERRALS |
| 02/14/14 | (S) | STA, EDC |
| 03/06/14 | (S) | STA AT 9:00 AM BUTROVICH 205 |
| 03/06/14 | (S) | Moved SJR 23 Out of Committee |
| 03/06/14 | (S) | MINUTE(STA) |
| 03/07/14 | (S) | STA RPT 2DP 2NR |
| 03/07/14 | (S) | DP: COGHILL, GIESSEL |
| 03/07/14 | (S) | NR: DYSON, WIELECHOWSKI |
| 03/07/14 | (S) | FIN REFERRAL ADDED AFTER EDC |
| 03/10/14 | (S) | EDC AT 8:00 AM BELTZ 105 (TSBldg) |

BILL: SB 195

SHORT TITLE: POSTSECONDARY EDUCATION LOANS/GRANTS

SPONSOR(s): SENATOR(s) FAIRCLOUGH

| | | |
|----------|-----|-----------------------------------|
| 02/24/14 | (S) | READ THE FIRST TIME - REFERRALS |
| 02/24/14 | (S) | EDC, FIN |
| 03/10/14 | (S) | EDC AT 8:00 AM BELTZ 105 (TSBldg) |

BILL: SB 208

SHORT TITLE: SCHOOL CONSTRUCTION BOND DEBT

SPONSOR(s): SENATOR(s) OLSON

| | | |
|----------|-----|---------------------------------|
| 02/26/14 | (S) | READ THE FIRST TIME - REFERRALS |
| 02/26/14 | (S) | EDC, FIN |

03/10/14 (S) EDC AT 8:00 AM BELTZ 105 (TSBldg)

BILL: SB 139

SHORT TITLE: EDUCATION: FUNDING/TAX CREDITS/PROGRAMS

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/24/14 (S) READ THE FIRST TIME - REFERRALS
01/24/14 (S) EDC, FIN
02/03/14 (S) EDC AT 8:00 AM CAPITOL 106
02/03/14 (S) Heard & Held
02/03/14 (S) MINUTE(EDC)
02/10/14 (S) EDC AT 8:00 AM BELTZ 105 (TSBldg)
02/10/14 (S) Heard & Held
02/10/14 (S) MINUTE(EDC)
02/24/14 (S) EDC AT 8:00 AM BELTZ 105 (TSBldg)
02/24/14 (S) Charter School Funding; Residential
School
02/26/14 (S) EDC AT 8:00 AM BELTZ 105 (TSBldg)
02/26/14 (S) Heard & Held
02/26/14 (S) MINUTE(EDC)
02/28/14 (S) EDC AT 8:00 AM BELTZ 105 (TSBldg)
02/28/14 (S) Heard & Held
02/28/14 (S) MINUTE(EDC)
03/03/14 (S) EDC AT 8:00 AM BELTZ 105 (TSBldg)
03/03/14 (S) Heard & Held
03/03/14 (S) MINUTE(EDC)
03/10/14 (S) EDC AT 8:00 AM BELTZ 105 (TSBldg)

WITNESS REGISTER

SENATOR ANNA FAIRCLOUGH
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Sponsor of SJR 23 and SB 195.

DIANE BARRANS, Executive Director
Alaska Commission on Postsecondary Education
Juneau, Alaska

POSITION STATEMENT: Presented information on SJR 23 and SB 195.

MIKE COONS, representing himself
Palmer, Alaska

POSITION STATEMENT: Testified on SJR 23 and SB 195.

KRISTEN PRATT, Staff
Senator Anna Fairclough
Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Explained the sections of SB 195 on behalf of the sponsor.

DAVID SCOTT, Staff
Senator Donny Olson
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented SB 208 on behalf of the sponsor.

ELIZABETH NUDELMAN, Director
School Finance and Facilities Section
Department of Education and Early Development (DEED)
Juneau, Alaska

POSITION STATEMENT: Answered questions related to SB 208.

TY MASE, Superintendent
Lake and Peninsula School District
King Salmon, Alaska

POSITION STATEMENT: Testified in support of SB 208.

NATHAN HILL, Manager
Lake and Peninsula Borough
King Salmon, Alaska

POSITION STATEMENT: Testified in support of SB 208.

TOM BEGICH, Government Affairs Director
Citizens for Educational Advancement of Alaska's Children
Anchorage, Alaska

POSITION STATEMENT: Testified in support of SB 208.

SUSAN MCCAULEY, Ph.D., Director
Teaching and Learning Support
Department of Education and Early Development (DEED)
Juneau, Alaska

POSITION STATEMENT: Presented information on SB 139.

MARK HANLEY, Commissioner
Department of Education and Early Development (DEED)
Juneau, Alaska

POSITION STATEMENT: Presented information on SB 139.

JOHANNA BALES, Deputy Director
Tax Division
Department of Revenue
Anchorage, Alaska

POSITION STATEMENT: Answered questions related to SB 139.

ACTION NARRATIVE

8:02:07 AM

CHAIR GARY STEVENS called the Senate Education Standing Committee meeting to order at 8:02 a.m. Present at the call to order were Senators Gardner, Dunleavy and Chair Stevens. He noted that there were four bills before the committee.

SJR 23-CONST. AM: STUDENT LOAN DEBT

8:03:09 AM

CHAIR STEVENS announced that the first order of business would be SJR 23.

SENATOR ANNA FAIRCLOUGH, Alaska State Legislature, Juneau, Alaska, sponsor of SJR 23. She explained that SJR 23 provides Alaska's students the lowest possible debt, should they have to acquire debt. The Constitutional Amendment would be placed before voters in the November general election, and should the voters agree with a constitutional amendment that would allow the best possible debt to be purchased for students in Post-Secondary Education, the first loan would not be available until about 2017.

8:04:30 AM

CHAIR STEVENS asked why there is a 41 percent denial rate for student loan applicants. He asked if this bill would help to remedy that problem by lowering the cost of loans.

SENATOR FAIRCLOUGH explained that in 2008, the federal government changed the definition of credit. Students without credit before 2008 were considered to have good credit and the government would take a risk in allowing the student to take out a student loan. After that date, student loans began to increase in delinquency and if a student had zero debt, it was considered bad debt. In short, SJR 23 would allow the Alaska Student Loan Corporation to lower that threshold slightly and anticipate positive repayment rates.

SENATOR GARDNER asked if it would have any impact on the interest rate.

SENATOR FAIRCLOUGH said yes. She said they have been told that the delta is somewhere above 1 percent. If one could pledge the full faith and credit of the state of Alaska, there would be an

AAA bond rating, whereas the current loans carry a higher rate. She deferred to Ms. Barrans to answer.

SENATOR GARDNER asked if the student loans would have an interest rate of 1 percent or higher.

SENATOR FAIRCLOUGH clarified that the students would see a decrease of at least 1 percent or higher in their loan rate if general obligation bonds could be issued.

She noted a person who testified in opposition to SJR 23, claiming that the bill encourages student loan debt. She stated that this bill does not encourage student loan debt. It allows the state to offer debt at a lower interest rate than it currently can under the current scenario. The Alaska State Constitution only allows the state to issue debt for a bond for capital projects or bonds for veteran homes. This is a policy decision that is permissible, but would have to come back to the legislature every time a bond is issued.

CHAIR STEVENS commented on the amount and cost of student debt. He recalled an article about a young couple who graduated from the University of Washington Medical School and owed half a million dollars between them in student debt. He said he appreciates the sponsor's efforts to help solve this issue.

[8:08:22 AM](#)

DIANE BARRANS, Executive Director, Alaska Commission on Postsecondary Education, Juneau, Alaska, presented information on SJR 23. She expressed appreciation for the sponsor's interest in supporting a long-term solution to offer Alaska residents the lowest possible cost of an education loan in a fashion that would not require any financial output by the state in terms of general fund support.

CHAIR STEVENS appreciated efforts to change the culture. He recalled problems with students not repaying loans in the past. He inquired if the bill would have any negative impact on student repayment of loans.

MS. BARRANS said, to the contrary, she believes that by reducing the financing cost to students they would be better able to meet their obligations.

SENATOR GARDNER asked what the current interest rate on state-funded student loans is.

MS. BARRANS said 7.3 percent is the base rate. She added that the Alaska Student Loan Corporation annually reviews its capacity to offer discounts or credits - borrower benefits. Currently, the corporation does offer a half percent benefit to individuals attending school in Alaska and for borrowers in repayment, a quarter percent discount for those who take advantage of on line electronic repayment options. It allows the corporation to reduce the total cost by three-quarters of a percent against the 7.3 percent.

SENATOR GARDNER asked if SJR 23 passes, then the interest rate would be 6.3 percent or less.

MS. BARRANS replied that it would depend on the market. At this point in time, it would be at least a 1 percent reduction, possibly as much as 1.25 percent due to being able to leverage the state's outstanding credit.

[8:11:53 AM](#)

CHAIR STEVENS said because it is a constitutional amendment, it will be on the November general election, not on the August primary, which is pretty crowded.

MIKE COONS, representing himself, Palmer, Alaska, testified in opposition to SJR 23. He wished to add information to a recent testimony. He said he spoke of the major flaws in the bill at that time.

CHAIR STEVENS stated that this is a new committee that has not heard previous comments.

MR. COONS maintained that the U.S. is a debtor nation, not a saving nation and low interest rates encourage students to go into debt. He listed other ways for students to get a college education debt free. He stated his belief that less government is better.

CHAIR STEVENS closed public testimony and held SJR 23 in committee.

195-CONST. AM: STUDENT LOAN DEBT

[8:18:28 AM](#)

CHAIR STEVENS announced that the next order of business would be SB 195.

SENATOR ANNA FAIRCLOUGH, Alaska State Legislature, Juneau, Alaska, sponsor of SB 195, introduced the bill. She said SB 195 makes substantive housekeeping changes to Alaska State Statutes regarding the Alaska Commission on Post-Secondary Education and the Alaska Student Loan Corporation. These changes include allowing the commission to set favorable terms for borrowers. It increases the total loan limit a student may borrow. Loan limits have not been changed for almost 20 years. In fact, since 1995, the tuition at the University of Alaska has almost doubled. Post-secondary expenses have increased. Alaska students and their financial aid officers report that borrowers with high unmet costs of attendance are increasingly choosing loans with higher loan limits, even when the loan limits have higher interest rates. This bill also defines an on-time status for students to reach completion. There is evidence that shows a strong correlation between enrollment intensity and the completion rate. The bill also clarifies the corporation's authority to offer consolidations of loans to state residents. Research shows that students with multiple lenders are more likely to default or otherwise struggle with repayments.

[8:20:01 AM](#)

KRISTEN PRATT, Staff, Senator Anna Fairclough, Alaska State Legislature, Juneau, Alaska, explained the sections of SB 195 on behalf of the sponsor. She related that Sections 1 and 2 broaden the commission membership to clarify representation by an Alaska private, nonprofit higher education institution's representative.

CHAIR STEVENS asked who will be included on the commission that has not been included in the past.

SENATOR FAIRCLOUGH explained that current state statute limits the authority or the body to members of the Alaska Pacific University. The bill would broaden it to others that offer post-secondary education to serve on the commission.

MS. PRATT continued to explain that Sections 3 and 4 clarify the authority for the commission and Department of Education and Early Development (DEED), to work together to assess education outcomes of public school students.

Section 5 corrects misplacement of language by removing from paragraph (5) and inserting in paragraph (6) and clarifies specific corporation powers into paragraphs (12), (13), and (15).

Section 6 provides that a borrower may apply for a state supplemental education loan without first having to exhaust all other federal or private education loan options. Section 7 is a conforming change to Section 6, regarding the financing program for education loans.

Section 8 clarifies that corporation education loans are not offered as lines of credit. Section 9 clarifies that state education grants are not funded by the corporation's education loan fund. Section 10 is a conforming change with Section 9.

Section 11 adds a new section (d) to AS 14.42.210. It moves the corporation power to offer below-market loan terms. Section 12 adds a new section to AS 14.42.215 and clarifies that the corporation sets the interest rates on loans it finances.

Section 13 permits the corporation's trust indenture to govern the size of its capital reserve. Section 14 is a conforming change to Section 13.

Section 15 incorporates the term "perfected", a term of art for uniform commercial code purposes, as recommended by the corporation's bond counsel. Section 16 updates the name of an institutional accreditation organization.

Section 17 repeals and reenacts AS 14.43.122. It clarifies corporation authority to offer consolidation loans to state residents. It removes the option for joint consolidation of married borrowers. Section 18 clarifies the definition of "half-time student" for undergraduates and adds a definition for graduate students.

Section 19 revises the school year definition to align with the state fiscal year and to conform to the standard education lending year. Section 20 clarifies that, subject to the annual loan limits, a borrower may receive loans up to the amount of their unmet cost of education without regard to other loans that may be available.

Section 21 provides for applicability of institutional standards for participation in state education loan programs. Sections 22 and 23 update references to federal education loans.

Section 24 clarifies that the corporation funds the loan and revises upwards the annual maximum loan amount a person may borrow. Section 25 revises upwards the aggregate maximum borrowing limit to conform to Section 24. Section 26 adds a new

section that clarifies that the commission determines the amount a loan applicant may borrow based upon their enrollment status and not to exceed the costs of attendance.

Section 27 amends the maximum length of a post-enrollment deferment period. Section 28 simplifies the name of the Alaska Advantage Education Grant Program to Alaska Education Grant Program for ease of use and identification as a state funded grant. Sections 29 and 30 conform to Section 28. Section 30 also incorporates by reference the commission's existing authority to promulgate program regulations.

Section 31 permits the commission to set grant terms and conditions. It directs the commission to establish annual grant maximums relative to a student's enrollment status. Section 32 revises upwards the annual grant maximum. Section 33 revises upwards the aggregate grant amount a person may receive to conform to Section 32.

Section 34 adds a new section to enable the commission to designate awards as a state match in the event federal funds for education grants are available and require such a match. Section 35 repeals and reenacts AS 14.43.620(a). It clarifies that the revolving loan fund for Teacher Education Loans is administered by the commission.

Section 36 adds a new section that clarifies that loans to new borrowers may only be made if sufficient funds are available. It conforms to Section 35. Section 37 also conforms to Section 35 and clarifies that the commission sets the Teacher Education Loan interest rate on loans financed from the fund.

Section 38 increases upwards the annual and aggregate loan amounts available to a borrower under the Family Education Loan. Section 39 clarifies that to be eligible for the Family Education Loan, both the borrower and student must be Alaska residents.

Section 40 changes the name of the program to conform to Section 30. It permits the administrative costs of the state grant program to be paid from the education grant account. Section 41 amends the general definitions to incorporate "on-time" enrollment status. Section 42 modifies the institutional authorization exemption of short education or training courses by increasing the maximum number of days or total hours of a course.

Section 43 clarifies that the commission may enter into multi-state reciprocity agreements for the purposes of regulating the delivery of education and training programs in Alaska. Section 44 limits the mandatory meningococcal immunization notice requirement to students who are physically present on an institution's campus.

Section 45 is conforming language that eliminates various statutes to achieve the intent of this legislation. Section 46 is a transition section. It clarifies the commission will set Teacher Education Loan interest rates upon enactment. The corporation will set interest rates before enactment.

Section 47 contains revisor's instructions that the state grant administrators retain existing regulations until the new act is implemented. Section 48 provides for an effective date.

8:28:06 AM

CHAIR STEVENS asked what it means that a borrower and a student must be Alaska "residents," and how long it would take for a student to become a resident.

SENATOR FAIRCLOUGH replied that it takes one year.

CHAIR STEVENS stated that in one year a student from Connecticut attending UAF could become an Alaska resident.

SENATOR FAIRCLOUGH said that is correct.

SENATOR GARDNER referred to Section 1 and asked if the other schools now included offer a Bachelor of Arts program, or just a certification or associates degree.

DIANE BARRANS, Executive Director, Alaskan Commission on Postsecondary Education, Juneau, Alaska, answered questions related to SB 195. She explained that those private, nonprofit, higher education institutions offer an associate degree or higher.

SENATOR GARDNER requested examples of those schools.

MS. BARRANS listed the schools: Alaska Pacific University, Alaska Christian College, and Alaska Bible School. She added that there are other institutions in the state that offer those credentials as well, but they are covered by another non-proprietary sector. Previously, the statute limited it to alternating representation from Sheldon Jackson College and

Alaska Pacific and when Sheldon Jackson College closed, Alaska Pacific was left.

[8:31:37 AM](#)

CHAIR STEVENS noted the Governor has termed this legislative year the "education session." He wondered how urgent this bill is and what happens if it is not enacted this year. He asked if it would fit into the Governor's omnibus bill.

SENATOR FAIRCLOUGH said she has not checked with the Governor. She emphasized that SB 195 is about students and she has been working with Ms. Barrans for over a year on this issue. She noted that they tried to introduce a bill to this effect last session. Student loan debt is becoming a national problem. She stated that if the bill does not pass this session she will offer it again. She maintained that it is the right thing to do for Alaska students and the commission supports it. It is a policy decision for the legislature. The bill provides tools for the commission to perform better for students.

[8:33:29 AM](#)

SENATOR GARDNER applauded Senator Fairclough's efforts to reduce the cost of student loans. She thought other elements of the bill that are clean-up or long-standing wishes should go to the Senate Judiciary Committee to address.

SENATOR FAIRCLOUGH replied that SB 195 goes to Senate Finance, which can adequately deal with the bonding issues. She added that she was surprised that SJR 23 did not get assigned to Senate Judiciary, but it has three referrals. She said she is not opposed to a recommendation that SB 195 be referred to Senate Judiciary. She noted that the changes are at the request of the Alaska Commission on Post-Secondary Education.

SENATOR GARDNER read some of the unclear parts, such as in Section 15 which incorporates the term "perfected, a term of art for uniform commercial code purposes." Section 17 "clarifies corporation authority to offer consolidation loans to state residents. Removes the option for joint consolidation of married borrowers." She maintained that parts of the bill remain a concern.

[8:36:13 AM](#)

SENATOR GARDNER noted Section 6, "Provides that a borrower may apply for a state supplemental education loan without first having to exhaust all federal or private education loan options." She asked for the rationale for requiring students to

exhaust other loan options first and for the impact of the change.

SENATOR FAIRCLOUGH explained that the intent is to provide the lowest cost loan, so students would apply for a federal loan first at a 3.48 percent interest rate.

MS. BARRANS said she did not know why the requirement to exhaust private loans is there. It seems counterintuitive when the state is offering a lower interest rate than private lenders. With respect to the federal loans, the logic is that the federal government may offer a better interest rate, and payback options. When the state issues tax exempt bonds, under IRS provisions, the state has to only supplement the aid from the federal government. However, if the corporation could issue taxable debt, that provision would not be required. Rather than have it in statute, and lack the option of doing either taxable or tax-exempt debt, it is better to remove it and apply it when appropriate.

8:39:08 AM

SENATOR GARDNER remarked that in past there was no flexibility regarding federal loans, and the new provision allows the commission to make recommendations and allows the student to do whatever is best in a changing world.

MS. BARRANS said absolutely.

CHAIR STEVENS brought up the issue of student privacy concerns and requested an opinion of how that applies to student data in Section 3.

MS. BARRANS explained that the bill does not go to privacy. The commission, under its current authority, can collect information and do outcomes reporting. This bill clarifies that it is subject to approval by DEED, but is not mandatory in any way. She added that in the commission's dealing with DEED, student privacy agreement is tantamount and clearly spelled out. She mentioned the Alaska Performance Scholarship outcomes report, which does not contain students' personal information, as an example.

SENATOR GARDNER asked about Section 12, which clarifies that the corporation sets the interest rate on loans it finances. She asked if that was a new policy.

MS. BARRANS related that student loan program statutes predated the existence of the corporation. In some of the older statutes it said the commission would set the interest rate, which was changed over time. Section 12, under corporation powers, consolidates the authority to set interest rates on any loan financed by the corporation.

[8:42:54 AM](#)

SENATOR GARDNER addressed Section 46 - "Commission to set Teacher Education Loans interest rate upon enactment." She inquired if those rates are currently set in statute.

MS. BARRANS explained that there is a formula by which rates are set by the corporation. Under the bill, the corporation would no longer fund Teacher Education Loans; they would be funded by the state and the commission would be setting the interest rates on those loans.

CHAIR STEVENS asked if SB 195 should be included in SB 139.

MS. BARRANS said she has not studied SB 139. It would be a subject of discussion with the Governor's staff. This bill is discreet to the student loan program and it may not make sense to blend it into SB 139.

[8:44:39 AM](#)

SENATOR GARDNER stated that Section 38 "Increases upwards the annual and aggregate loan amounts available to a borrower under the Family Education Loan." She requested more information about the Family Education Loan.

MS. BARRANS explained that the Family Education Loan is a loan through which a family member may borrow on behalf of a student.

SENATOR GARDNER pointed out that Section 31 permits the commission to set grant terms and conditions. She asked if that is already the case or if this is a new permission.

MS. BARRANS described it as a clarification to make sure the commission can do so.

[8:46:00 AM](#)

CHAIR STEVENS asked if teacher loans mentioned in the bill encourage students to go into teaching. Lack of teachers and lack of Native teachers are current state issues.

MS. BARRANS said when looking at outcomes of that particular issue, it does not seem so. It is not a particularly effective tool. Conceptually, it is very attractive in that rural districts nominate individuals who are graduates of Alaska high schools who express an interest in teaching. If those students complete the degree and teach in a qualifying school, they can have the entire loan forgiven. Fewer than one-in-five actually meet all of the criteria. It is not a successful model. Other states have a similar issue and have gone to loan repayment or loan assumption programs that create a fund for people who successfully complete the program to then be able to apply for a benefit. All the money goes to people who have already shown commitment.

CHAIR STEVENS requested clarity on "one-in-five."

MS. BARRANS said one-in-five participants in the program were successful and received the forgiveness benefit by teaching in a qualifying school.

[8:48:38 AM](#)

SENATOR GARDNER said Section 27 amends the maximum length of a post-enrollment deferment period. She requested more information.

MS. BARRANS related that, currently, borrowers have a six-month grace period after separating from school. Section 27 changes it to up to six months.

SENATOR GARDNER asked about how that decision is made.

MS. BARRANS replied that it depends on how long until a student is employed after leaving school. Interest accrues during that time so sooner is better than later.

SENATOR GARDNER asked if the student's contract contains that provision.

MS. BARRANS said yes.

[8:50:31 AM](#)

CHAIR STEVENS opened public testimony.

MIKE COONS, representing himself, Palmer, Alaska, testified on SB 195. He agreed with the consolidation of existing loans. He asked how much could be consolidated after four years and if

there is any loan counseling. He asked if a student could pay down a loan while they were attending school.

MS. BARRANS explained said there is financial counseling outreach to students as early as junior high. There are also online programs, such as Reality Check. Once a student is borrowing, the commission sends out an annual statement and a monthly bulletin.

She addressed the importance of passing the bill. She stressed that anything supporting the commission to better serve students to expeditiously move to their credential is worthwhile. Alaska has a high percent of students that attend part time and a low graduation rate. Those two issues are connected, so anything the commission can do to allow students to attend full time and to graduate on time is very beneficial.

[8:55:46 AM](#)

SENATOR GARDNER asked if Ms. Barrans has any information about Alaska's low completion rate compared to other states.

MS. BARRANS said the data supports that there is a direct correlation between the lack of full-time attendance and the low completion rate. The longer it takes, the lower the graduation rate. Students who attend regularly are engaged in their post-secondary education.

CHAIR STEVENS held SB 195 in committee.

SB 208-SCHOOL CONSTRUCTION BOND DEBT

[8:58:14 AM](#)

CHAIR STEVENS announced that the next order of business would be SB 208, version A.

DAVID SCOTT, Staff, Senator Donny Olson, Alaska State Legislature, Juneau, Alaska, presented SB 208 on behalf of the sponsor. He explained that the intent of SB 208 is to encourage small and rural schools to address their facility improvement needs by issuing debt, rather than by obtaining a state grant program. It would increase the state's share of the debt reimbursement from 70 percent to 80 percent for a select number of schools. Those schools are those who meet the 20 percent threshold of the participating share that is set in AS 14.11.008. He counted seven schools that are eligible to participate.

[9:00:03 AM](#)

MR. SCOTT referred to a drafting error in Section 1, page 7, lines 1 and 2. It states that the schools would have to "meet or exceed" the 20 percent participating share requirement. It is the intent of the sponsor that it should say the schools should "meet" the 20 percent participating share. The words "or exceed" is confusing language and needs to be removed.

He continued to explain that Section 2 is a retroactive clause that would allow schools that have taken debt at 30 percent after January 1, 2013, and who meet the 20 percent requirement, could take on the 20 percent share retroactively. Section 3 is the immediate effective date.

[9:01:51 AM](#)

SENATOR GARDNER asked for clarification of Section 2. She inquired if it applied to anyone who has outstanding debt or if there is a start date for that debt.

MR. SCOTT said the project Port Alsworth would benefit from Section 2 in the amount of \$128,000.

SENATOR GARDNER said that explains why Port Alsworth has sent testimony on the bill.

CHAIR STEVENS agreed.

[9:03:15 AM](#)

ELIZABETH NUDELMAN, Director, School Finance and Facilities Section, Department of Education and Early Development (DEED), Juneau, Alaska, answered questions related to SB 208.

CHAIR STEVENS requested the department's reaction to the bill.

MS. NUDELMAN agreed that clarification of an area of the bill is needed, as pointed out by Mr. Scott. She said without it, it is difficult to complete a fiscal note.

CHAIR STEVENS said that is problematic.

MS. NUDELMAN related that the language on page 7, lines 2, "exceeds the 20 percent participating share" is a problem. If the intent of the bill is for districts who have a 20 percent participating share in the grant program, the language needs more clarity.

CHAIR STEVENS requested an explanation of a document by DEED on the FY 2015 Participating Share Requirement.

MS. NUDELMAN explained that the document comes from the Construction Grant Program, a competitive program. The department does not use participating share in this manner in the debt program. The department does review and rank the applicants for the Construction Grant Program. The statute for the grant program says if the full assessed value of the property in the district is over \$500,000 per ADM, then the participating share is 30 percent. There is a ladder of five categories. The participating share for a school district and their municipality is 5 percent, 10 percent, 20 percent, 30 percent, or 35 percent for the grant program. The handout shows where each school district falls. For example, the Aleutians East is at 35 percent.

She pointed out that the regional education areas are at 2 percent. They do not have legal capacity to bond.

CHAIR STEVENS said Aleutians East must pay 35 percent as their local share.

MS. NUDELMAN said, "For our grant program; correct."

9:07:50 AM

TY MASE, Superintendent, Lake and Peninsula School District, King Salmon, Alaska, testified in support of SB 208. He thanked the sponsor and said how important the 20 percent rate is to his district. He related that the district has been pursuing an 80/20 school construction grant for Port Alsworth's school expansion for the better part of a decade. He said they have been as high as number five on the list. He said with an anticipated enrollment of 70-plus students in Port Alsworth, the district could not wait any longer to begin construction. In April they obtained voter approval to issue debt and get the project underway. The participating share was set at 70/30. He concluded that debt reimbursement is a means for the district to address overcrowding and much-needed upgrades. He requested passage of the bill.

9:09:56 AM

NATHAN HILL, Manager, Lake and Peninsula Borough, King Salmon, Alaska, testified in support of SB 208. He thanked Senator Olson for sponsoring the bill and the committee for considering it. He believed the bill was a reasonable request and would have a

positive impact on education and teacher development for rural schools like Lake and Peninsula Borough.

CHAIR STEVENS commented that the school was built under the 30 percent program, but the 20 percent retroactively would be very beneficial.

MR. HILL said yes. He added that there was overcrowding and they could not wait any longer to expand the school.

CHAIR STEVENS said he has been in the old school and understands the problems they were facing.

[9:12:05 AM](#)

TOM BEGICH, Government Affairs Director, Citizens for Educational Advancement of Alaska's Children, Anchorage, Alaska, testified in support of SB 208. He said the bill is good public policy and would allow districts to upgrade and improve schools in rural Alaska statewide. Rural schools were chronically underfunded for years. The bill would fill the gap in school grant construction.

CHAIR STEVENS thanked Mr. Begich.

MR. SCOTT pointed out that the participating share requirement has some precedent. On page 6, line 6, those schools who met the 10 percent participating share were eligible for 90 percent reimbursement from the state.

He reiterated that the language in Section 1, page 7, lines 1 and 2, "or exceed" needs to be removed. Also, the sponsor would like to add language to allow for 5 percent and 10 percent shares, but for all practical purposes, those districts would not be able to bond.

[9:15:12 AM](#)

CHAIR STEVENS asked Mr. Scott to comment on the need for clarity, as mentioned by Ms. Nudelman.

MR. SCOTT agreed. The intent of sponsor is for 20 percent and lower.

CHAIR STEVENS held SB 208 in committee.

SB 139-EDUCATION: FUNDING/TAX CREDITS/PROGRAMS

[9:16:39 AM](#)

CHAIR STEVENS announced that the final order of business would be SB 139. He said the committee will deal with two portions of the bill, charter school funding found in Section 9, page 7, and the tax credit in Sections 21-31, pages 11 through 17.

CHAIR STEVENS began with charter school funding.

SUSAN MCCAULEY, Ph.D., Director, Teaching and Learning Support, Department of Education and Early Development (DEED), Juneau, Alaska, presented information on SB 139. She introduced herself.

9:17:51 AM

MARK HANLEY, Commissioner, Department of Education and Early Development (DEED), Juneau, Alaska, presented information on SB 139. He stressed the importance of the language beginning on line 4 in Section 9: "The budget shall not be less than the amount generated by the students enrolled in the charter school, less administrative costs retained by the local school district." He said the idea is that students generate funds through the district funding formula. He pointed out on line 7, the amount generated by students is clarified: "The amount generated by students enrolled in the charter school is to be determined in the same manner as it would be for a student enrolled in another public school in that school district." He said the idea behind current language in statute is equity.

COMMISSIONER HANLEY explained the separate organizational structure of charter schools. He said there is a parent group that provides oversight, but he maintained that they should be funded in the same manner. Language beginning in line 9, clarifies what that funding entails: special needs funding, secondary vocational/technical instruction funding, and pupil transportation funding. The first two funds are a part of the per-student formula or the BSA formula. Pupil transportation is also driven by student enrollment, but is a separate formula.

CHAIR STEVENS asked if, at present, those three are a part of charter school funding.

COMMISSIONER HANLEY said not necessarily. He opined that current statute includes says "these are funds generated by a student." However, he agreed it is open to interpretation by school districts. Some districts provide transportation; some provide special education services. The bill clarifies and provides equity.

CHAIR STEVENS concluded that this provision would not have an impact on a district's budget as they are already receiving the funding.

COMMISSIONER HANELY said that is correct. Some districts might have to provide additional funding to charter schools.

[9:21:42 AM](#)

SENATOR GARDNER said there are neighborhood public schools where all students must be accepted, including students with special needs or transportation needs. There are also optional schools filled by lottery programs. She said in her school district, alternative schools do not receive transportation and can decline to take a student with special needs. She asked if charter schools could decline to accept a special needs student.

COMMISSIONER HANLEY stated that a public school cannot refuse special needs students. Charter schools also cannot refuse special needs students.

SENATOR GARDNER said it makes sense then that charter schools get special education funding. She questioned whether districts who do not currently provide transportation funding to charter schools will be required, and able, to provide it.

COMMISSIONER HANLEY said the key is the contract between the charter school and the district on how those services will be provided. Currently, public schools share special education services and transportation can be the same way. Some districts already do provide transportation services. The bill is recognition that students are generating funds for transportation and should have access to transportation in some manner.

[9:26:00 AM](#)

CHAIR STEVENS summarized that currently money for transportation goes to the district, not to each school. The bill recognizes the obligation of the district to use those funds for the charter school. He said this might allow the charter school to use transportation funds for ways other than transportation.

COMMISSIONER HANLEY provided several examples of uses of transportation funds for charter schools. The funds are in the form of block grants and are not monitored or tracked by the state. A district could use the funds in a variety of ways. Technically, charter schools could reallocate transportation funds for other uses.

[9:27:46 AM](#)

SENATOR GARDNER said the provision opens a can of worms. If there is no fiscal note, the district has "x amount." Some schools must use the funds to provide transportation, but the funds will also be sent to charter schools that have no busses. Therefore, funds are being siphoned from neighborhood schools that have to bus and given to charter schools that can't provide busing. She questioned the idea of paying to "offset carpool fees."

COMMISSIONER HANLEY replied that it would hurt a district if it was generating funds for those students and not providing any transportation services. He discussed how a district might provide services, such as drop-off spots.

DR. MCCAULEY noted that the intent is that there is some level of service for the student. She said transportation funds are generated by all students. There is currently no language that requires students to receive benefits from the funds they generate. The intent is not to undermine a school district.

She provided an example in the Mat-Su District several years ago. The approach was to identify pick up locations along existing routes to include charter school students. She described a level of transportation agreed upon by the district and the charter school.

CHAIR STEVENS asked if that plan achieved equity.

DR. MCCAULEY said yes. She continued to say what is inequitable is not providing any transportation funds for charter school students.

SENATOR GARDNER asked about transportation funding for non-charter, alternative schools.

[9:33:53 AM](#)

COMMISSIONER HANLEY said optional school students also generate transportation funds, but it is a district policy on the transportation component. Transportation was not provided for optional or charter schools in Anchorage. He said the exception was Rogers Park School.

SENATOR GARDNER asked if Northern Lights, ABC School, and Polaris receive transportation funds under the current formula.

COMMISSIONER HANLEY said the school district receives funding for those students.

SENATOR GARDNER asked if those schools receive the funding.

COMMISSIONER HANLEY said no. A school has a separate budget as generated by the district.

SENATOR GARDNER asked why Section 9 applies only to charter schools and not to alternative schools.

COMMISSIONER HANLEY explained that charter schools operate under academic policy committees, which is different than an optional school. There is a significant difference in the structure and management of an optional school.

SENATOR GARDNER said it does not make sense, if talking about equity of funding and students generating the funds. She said she does not understand why other alternative schools are not included in the bill.

[9:36:30 AM](#)

DR. MCCAULEY clarified that comparisons between charter schools and non-charter schools are very different. The structures for operation are very different. Alternative schools fall under all district support systems, whereas charter schools do not. The intent of the bill is to provide equity and clarity for funding charter schools.

SENATOR GARDNER said she is aware of the inequities for funding charter schools and has sponsored bills to address it. However, she said her legislation has a cost to the state because it does not "cannibalize" the rest of the district to provide what charter schools aren't currently getting. Even though alternative schools fall under the support of the district, they do not receive transportation funds. She argued that if a charter school will receive transportation funds under SB 139, alternative schools should also.

SENATOR GARDNER asked how charter schools fund special education. She asked if the district provides funding or if the funds come out of the 25 percent administration fee.

DR. MCCAULEY said it varies district to district. All districts have a requirement for all students to ensure that when the students have IEP's, that they are accountable to goals of the IEP's. Some districts, as part of the contract with the charter

school, charge for access to services. Other districts don't charge for services, but provide access to those services. State statute is not prescriptive with regard to what approach is taken.

[9:41:14 AM](#)

CHAIR STEVENS thought it was strange to have to put the wording in the bill. He asked if the Commissioner would like to comment on the vocational/technical component.

COMMISSIONER HANLEY said the component applying to vocational/technical educational programs for secondary students does not get as much attention as the other two components. Students generate funds for vocational/technical programs, but often do not receive them in charter schools. Not all charter schools have those programs.

CHAIR STEVENS voiced appreciation for the attempt to achieve equity and clarity in the bill.

SENATOR GARDNER understood that transportation is a big issue for students who are interested in attending an alternative school, charter or otherwise. Without transportation funding, those schools are not open to all. She maintained that if transportation is provided to charter schools, it should also be provided for alternative schools. She pointed out that it would entail a cost to the district.

[9:43:31 AM](#)

COMMISSIONER HANLEY drew attention to another component of the charter school in Section 6, on page 5, regarding the application. He said there are two components, one of which has been addressed; funding equity. The second component is found in lines 16 and 17 - the application for a charter school. This provision allows an academic policy committee to apply to become a charter school. If they are denied at the local level, currently, the process ends.

COMMISSIONER HANLEY said on line 23 (b), it strengthens and brings transparency to the decision-making process: "The decision of the local school board, approving or denying the application for a charter school, must be in writing, and must include all relevant findings of fact and conclusions of law." He said the appeal process begins on page 6, line 12. The appeal goes to the commissioner who has three options. On line 17, one is to remand the appeal to the local school board for further review. Another is to approve the charter school

application and forward the application to the state board with or without added conditions. The third is to uphold the decision denying the application. This process allows an extra set of eyes to review the application process. He stressed that the important part is at the beginning of the process; the decision needs to be based on fact and in writing.

CHAIR STEVENS agreed that putting it in writing makes sense. He said, having served on a local school board, it is unrealistic that a school district would be forced to have a charter school. He said the only way to get beyond that is to have the State Board of Education in charge of the new charter school. He asked how the department could force a charter school on a district.

[9:48:02 AM](#)

COMMISSIONER HANLEY agreed. He opined that if a district denied an application based on fact and the conclusions of law, it would be very uncomfortable and awkward to approve it and force it on a school district. The idea behind this provision is to provide an opportunity for a review of the procedure. He noted that there have never been any denials of a charter school application; however, some charter schools were turned away before they applied.

CHAIR STEVENS said the Commissioner's staff is not excited about having to manage more schools.

SENATOR GARDNER asked if it was appropriate for a district to discourage a charter school proposal that is unrealistic.

COMMISSIONER HANLEY said yes; there are many reasons to deny an application and the decision should remain at the local level. He said he is not suggesting that scrutiny at the local level is not a great idea.

[9:51:07 AM](#)

CHAIR STEVENS moved on to the tax credit issue, beginning on page 11, Sections 21-31.

COMMISSIONER HANLEY said two components were added to the list of tax credits. The first one is on page 11, line 23, (8), and related to tax credits for a scholarship for students pursuing dual credits, to defray the cost of tuition, registration, course, and textbook fees. The second is (9), beginning on line 26, for the construction, operation, or maintenance of a residential housing facility by a residential school. These two

provisions are duplicated throughout the bill referencing different taxpayers.

9:53:10 AM

SENATOR GARDNER asked about (8) on line 23, the scholarship program. She asked if it is open to all applicants or if they are limited.

COMMISSIONER HANLEY said that provision involves a tax code. He did not know the restrictions.

JOHANNA BALES, Deputy Director, Tax Division, Department of Revenue, Anchorage, Alaska, answered questions related to SB 139. She explained that any non-profit that has set up a scholarship program would qualify for the tax credit, but there are no parameters within the language, so the non-profit could have some restrictions on who could qualify for the scholarship. The scholarship does not have to be open to everyone.

CHAIR STEVENS asked for clarification on the residential school credits and if they can be used for operations and maintenance.

MS. BALES said the tax credit could be for operations, maintenance, and construction of an approved facility.

CHAIR STEVENS asked how many residential schools there are.

COMMISSIONER HANLEY said there are eight.

CHAIR STEVENS noted the two provisions are found throughout the bill.

9:56:19 AM

MS. BALES said the two new contribution types would be available against four different tax types administered by the division; corporate income tax, mining license tax, fisheries business tax, and fishery resource landing tax.

CHAIR STEVENS summarized that non-profit organizations can offer scholarships for students pursuing dual credits and receive a tax credit. He asked if anyone is doing that now.

MR. BALES said she did not know.

CHAIR STEVENS asked Commissioner Hanley if he believes this provision to be functional.

COMMISSIONER HANLEY did not know of any non-profits that offer scholarships, currently. However, the boarding stipend just barely covers expenses for the time students are in attendance. Almost all residential schools have partners that help provide support. He anticipated that several entities would receive tax credits due to this bill.

9:58:20 AM

SENATOR GARDNER addressed the four kinds of tax credits. She gave a hypothetical example of a donation by a mining company and asked if the tax credit can be applied to their mining tax and their corporate income tax, yielding a double credit.

MS. BALES said no. There is language in current statute that says an entity cannot use the same contribution amount to take a credit against multiple tax types.

COMMISSIONER HANLEY summarized that the two components are relatively straightforward; one is equity and transparency for charter schools and the other is to incentivize more partnerships in education.

CHAIR STEVENS held SB 139 in committee.

9:59:19 AM

There being no further business to come before the committee, Chair Stevens adjourned the Senate Education Standing Committee at 9:59 a.m.